

Restructuring and Refinancing Using the SBA: Save the Deal

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Standard 7a Loan Guaranty Processing Center (LGPC)*

My Objectives

To help you:

- Better understand 7(a) **Refinance Eligibility**
- Increase your knowledge of SBA's **Submission Req's**
- Increase package **Accuracy and Completeness**
- Reduce loan **Processing time**
- Eliminate **Unnecessary Declines**
- Reduce **Screen Out** potential

Discussion Outline

- I. LGPC Locations & Processing Responsibilities
- II. The Submission Process
- III. What to Look for when submitting an app with refi –
(i.e. eligibility & submission requirements)
- IV. Mistakes we see and how to avoid them
- V. Some Do's & Don'ts
- VI. Questions

Standard 7(a) – LGPC

7(a) LGPC Locations

6501 Sylvan Rd., **Citrus Heights, CA** 95610

Phone: (877) 475-2435 toll free

Fax: (916) 735-1975

and

262 Black Gold Blvd, **Hazard, KY** 41701

Phone: (606) 436-0801

Fax: (606) 435-2400

“One site with a very long hallway”

Loans Processed at the LGPC

- Standard 7(a) - includes CLP (primary workload)
- S/RLA
- CAPLines
- EWCP (Export Working Capital Loans)
- International Trade Loans
- Dealer Floor Plan Loans (under ARRA as a pilot)
- ARC Loans (until 9/30)

How to Submit Your Guaranty Request

- Submit electronically via “SendThisFile” (strongly recommended)
- Fax to either location
- Send it via snail mail to either location
- Compile it in an organized manner
- Do NOT e-mail it (we won’t get it and won’t know it)

To use “SendThisFile” on the LGPC website, go to:

<http://www.sba.gov/aboutsba/sbaprograms/elending/lgpc/index.html>

- We confirm receipt of all applications by fax or e-mail, and provide you with a Control Number. If a you do not receive confirmation within in 72 hrs, please contact us. (If you don’t hear from us, we didn’t get it.)
- Please do not submit application in binders or notebooks (all paper gets shredded after scanning)

What Can be Refinanced

SBA guaranteed loans may be used to refinance the following types of debt:

- Long term debt structured with a demand note or balloon payment
- Debt with an interest rate that exceeds the SBA maximum interest rate for the processing method being used
- Credit card obligations used for business-related purposes (so the purpose must be stated in the credit memo)
- Debt that is over collateralized based on SBA's collateral requirements
- Revolving lines of credit (short term or long term) where the original lender is unwilling to renew the line or the applicant is restructuring its financing in order to obtain a lower interest rate or longer term

What Can be Refinanced - Cont.

SBA guaranteed loans may be used to refinance the following:

- Debt with a maturity that was not appropriate for the purpose of the financing (e.g. a 3 year term loan to finance a piece of equipment with a useful life of 15 years)
- Debt used to finance a change of ownership subject to the following requirements:
 - (1) The lender must obtain a current business valuation that meets SBA's requirements
 - (2) If the amount allocated in the business valuation to intangible assets exceeds \$500,000 and the borrower does not have at least 25% equity, the application may not be processed using delegated authority and must be sent to the LGPC (documentation generally is not required)
- Debt that is not identified above but the Lender believes no longer meets the needs of the Small Business Applicant. Applications under this subparagraph may only be processed through Standard 7(a) procedures

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Refinancing Objective

Effective with SOP 50 10 5(B)

Refinancing must improve cash flow by **only 10%** (to correspond to the similar rule for refinancing in the 504 loan program). (was previously 20%)

*This requirement does not apply when refinancing revolving lines of credit, credit card debt or debt structured with a demand or balloon payment.

What Cannot be Refinanced

Policies Regarding Debt Refinancing- SOP 50 10 5(B) p. 135-140

SBA guaranteed loan proceeds may not be used to refinance debt originally used to finance a loan purpose that would have been ineligible for SBA financing at the time it was originally made. So, the purpose of the original loan must be stated.

SBA guaranteed loan proceeds may not be used to refinance debt owed to an SBIC.

Carry-back financing that was taken out within the last 24 mos.

SID debt that was delinquent within the last 36 mos. Cannot be refinanced without getting an exception approved by DC.

Refinancing – Seller Take Back Financing

- May not occur sooner than 24 months after the purchase of the business--24 months gives the new owner an opportunity to run the business and file a tax return.
- Must meet one of the reasons for refinancing identified in subpart B, chapter 2, para. IV.D.
- The credit write up must contain the same items as a regular refinance
- No preferences - Example: conventional loan (non-SBA) for purchase of the business and SBA loan for working capital.

Refinancing - CRC Debt in the Name of the Business

The debt must have been used for business purposes, and the lender must:

- 1) Confirm that the credit card is in the name of the business
- 2) Borrower must certify that the credit card debt being refinanced was incurred exclusively for business related purposes.

If the business credit card was also used for personal reasons, the small business must identify which purchases were for personal reasons and that amount must be deducted from the credit card balance before applying for the SBA–guaranteed loan.

Refinancing - CRC Debt in the Name of the Individual

The debt must have been used for business purposes, and the lender must:

- 1) Confirm which of the credit card obligations were used for business-related purposes
- 2) Lenders must document the specific business purpose of the credit card debt
- 3) The borrower must certify that the loan proceeds are being used only for business-related debt.

Documentation required for refinancing credit card debt includes a copy of the credit card statements and individual receipts for any business expenses in excess of \$100. In all cases, the ***borrower must certify*** that the amount that will be refinanced was used exclusively for business expenses.

Exceptions to Policy

Refinance of same institution debt with delinquency (more than 29 days) within the last 36 months

- May be approved by DC (but usually only if 1 or 2, not too recently, and no other late payments).
- Severity as well as frequency is considered
- The reason for the delinquency makes a difference (we need to know)
- A history of late payments (even though not delinquent) will be considered.
- What is required: transcript, summary of past due and delinquent payments, reason for delinquency, and in some rare cases, a copy of the Note.

Refinancing – Mistakes We See

- Incomplete business debt schedules
- Pg.2 of Form 4 is incomplete and does not indicate which loans to be refinanced. (or the amount requested for refi differs)
- Incomplete Eligibility Questionnaire - Addendum E
- All questions in Debt Refi Justification/Calculation (Addendum E cont.) are not answered
- **When refinancing SID:** Failure to provide transcripts and certification no 29 day late payments (with summary of del.)
- **When refinancing business Acquisition debt:** Failure to provide a business valuation
- **When refinancing seller carry back financing:** Failure to provide certification no 29 day late payments
- **When refinancing Credit Cards:** Failure to provide appropriate certifications

Common Screen Out Reasons with Refi

- The participating lender did not include a transcript of the account along with certification that the loan has not been more than 29 days delinquent
- Certification for credit card debt
- Documentation for refinancing an SBA-guaranteed loan
- Lender's loan analysis did not include the following:
 - Why was the debt incurred? What was the original purpose?
 - Has over-obligated or imprudent borrowing necessitated a major restructuring of the debt?
 - Is the debt being refinanced currently on reasonable terms?
 - Will the new loan improve the financial condition of the Small Business Applicant?
 - Does the refinancing include payments to creditors in a position to sustain a loss, for example, the applicant has an inadequate collateral position, low or deficit net worth, or the loan is in default?
 - Would the lender/SBA be likely to sustain part or all of the same loss by refinancing the debt or will additional collateral or altered terms protect the interest of the taxpayer?
 - What portion of the total loan does the refinancing constitute?

Final “Do’s” For Submitting Your Guaranty Request

- If you have questions or concerns, ask before submitting the application
 - District Office
 - LGPC Call Center (877) 475-2435 (toll free)
 - 7aquestions@sba.gov
- Ensure the application is complete, signed & dated
 - (use the submission checklist!)
- Clearly explain any conflicting information
- Organize your app in a logical manner
- Submit your app via “SendThisFile”

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Do – Use the LGPC Web Site

<http://www.sba.gov/aboutsba/sbaprograms/elending/lgpc/index.html>



LGPC References

- Call Center number: (877) 475-2435 (toll free – in Citrus Heights)
- e-mail Box for questions: 7aquestions@sba.gov
- e-mail Box for loan documents and trailing documents:
7aloanprogram@sba.gov
- Document drop off on the website for large documents:
‘SendThisFile’
- LGPC Web Site:
<http://www.sba.gov/aboutsba/sbaprograms/elending/lgpc/index.htm>

Questions

